

BUSINESS INSURANCE

FOR THE SMALL BUSINESS OWNER

Toll Free: (800) 927-HELP
L.A. Area & Out of State: (213) 897-8921
T.D.D. 1-800-482-4TDD



Business insurance is a complex subject as diverse as business itself. Selecting an agent or broker experienced in business exposures and the commercial insurance market is extremely important. Interview several agents and ask for referrals. When shopping for coverages, get several quotes or proposals in writing.

Contractual agreements that enable your business to operate, such as leases, merchandising, and finance contacts, may obligate you to insure beyond your immediate concern. Review them, with your agent.

As you shop for your insurance you will see special terms and concepts unique to business insurance. Ask your agent to explain anything you are not familiar with. Be sure you understand how your insurance premium will be calculated. The premium may be based on, square footage of the floor area or, more frequently, payroll or sales receipts. In any case, your cooperation for access to your books, records, and/or premises is expected.

Policy periods are generally annual. Payment is due when coverage starts or as agreed upon. Premium financing is usually available, but be aware of the interest rate you will be paying as well as the authority given to the financing organization and how any disruption in your payments will affect your coverage.

WORKERS' COMPENSATION INSURANCE

An employee who has suffered an injury or illness resulting from employment is entitled to workers' compensation benefits. California Labor Code Section 3700 requires that every employer in California either buy workers' compensation insurance from a licensed insurance company, or obtain a certificate of self insurance from the California Department of Industrial Relations. Failure of an employer to follow this law may result in imposition of both civil and criminal penalties.

Because of the complexity of the issues involving this insurance, it is recommended that business owners review to Workers' Compensation brochures available from the Department of Insurance and the Department of Industrial Relations.

COMMERCIAL AUTO

Commercial auto insurance largely parallels private auto insurance. You should read your policy and understand the terms proper and conditions. Whenever you transport a client or move property by a motor vehicle, you should have an understanding of how your commercial auto insurance will work. You should also consider how non-owned autos, newly acquired vehicles, or changes in drivers affect your coverage.

PROPERTY INSURANCE

Business insurance may cover property of all types that you own or maybe in your "care, custody, and control". Such property may be buildings, personal property, equipment, inventory, goods in transit, earnings, etc. The nature of your business may also require you to protect other people's property as well.

Coverages

Property coverage is addressed from two sides of the same idea. “Named Perils” names each peril to be insured against; such as fire, explosion, aircraft damage, windstorm, etc. Other perils may be added along the way. “All Risk” starts from the other side, assuming all perils are covered except those named in the “Exclusions” of the policy. Obviously, the exclusions are an important part of the All Risk policy. Perils often excluded are: flood, and earthquake. Since the All Risk policy affords better protection, it is more expensive to purchase than the Named Perils policy. Remember, your agent is there to help you to understand your coverages. Insurance of property is based on its value. There may be “co-insurance” penalties for failing to insure to value. These penalties may be applied to a loss settlement. Determination of value is important for calculating the premium and settling for a loss. Some terms often used are: “actual cash value” meaning fair value market, “replacement cost”, “selling price” for unsold inventory, and “business interruption”.

Claims

Large deductibles, although they afford a reduction in premium, can have a critical affect on your cash flow if you are operating with or have access to very little capital. You cannot rely on insurance to always or completely cover your losses. A frequency of claims will have a definite affect on the insurer’s willingness to continue to insure your business. Although business-owners generally purchase replacement cost coverage, insurers often limit their initial settlement for the loss to actual cash value until such time as the owner has replaced the items lost.

California Fair Plan

If you can’t find business property insurance in your area, consider the California Fair Plan. Although it is not available everywhere in the state, most agents can help you in applying in qualified areas. The California Fair Plan can be reached at 1-800-339-4099 or 213-487-0111

LIABILITY INSURANCE

In general, liability insurance protects you from claims presented against your business for unintentional negligent acts. Additionally, this coverage provides a defense if a lawsuit is filed against your business. Example: 1) someone slips and falls on your business premises; 2) your covered truck is involved in an auto accident.

In order to protect the assets of your business, it is very important to purchase both adequate coverage and limits of liability when you purchase your business insurance. You should discuss liability insurance in detail with your insurance agent.

Coverages

Major types of business liability insurance you should be familiar with are: premises/operations, lessor's risk, contractual, products/completed operations, personal injury, non-owned auto, and professional liability.

Limits

Limits of liability are the maximum amount of the money the policy will pay.

Premiums

Different exposures generate premium in different ways. Offices where no customers visit are one kind of exposure, factories with blast furnaces are another. Some factors that determine premium are: square footage, payroll, sales, expenses for independent contractors, number of employees, etc. You should know how your premium is derived. You should also be aware of how much you are committing to deposit premiums and what effect audits and changes in your business activities will have on your premium. Where possible, get complete explanations of premium terms and coverages in writing.

NONADMITTED INSURERS

If you are unable to obtain insurance from an admitted (licensed in California) insurer, you may find yourself considering purchase of Nonadmitted@ (not licensed in California) insurance. Be aware that nonadmitted insurance companies are not subject to the financial solvency regulation and enforcement which applies to California admitted companies, nor are they covered by the California Insurance Guarantee Association in case of insolvency. Contact the Department of Insurance at 1-800-927-HELP for more details.

SMALL BUSINESS & COMMERCIAL INSURANCE

Operating a business is difficult enough without having to be concerned about suffering significant financial loss. Insurance is to protect against loss of your investment and financial impairment to your business. Some of the most commonly asked questions regarding commercial insurance are discussed below:

Q. How do I go about obtaining business insurance?

A. The first step in obtaining proper business insurance is to find and contact a reliable insurance agent or broker. Business contacts can often refer you to someone that they have had good experience with. When looking through the yellow pages, look for specialization in commercial insurance, and membership in one of the professional agents or brokers associations. When dealing with the agent initially, they should do their own analysis or survey of your exposures, and then ask to review any present coverages. To do otherwise could perpetuate any errors, gaps or overlaps that may exist in your present program.

Q. What kind of insurance do I need?

A. There are six broad areas of exposure:

- (1) **Property**
- (2) **Time Element**
- (3) **Crime**
- (4) **Automobile**
- (5) **Liability**
- (6) **Workers Compensation**

Not every business will have exposures in every area, which is why an analysis must be done. The State requires Workers' Compensation insurance if there are any employees.

Various governmental agencies may require certain types of insurance. For example, the Contractors State License Board requires bonds for contractors, and the Public Utilities Commission requires Commercial Automobile insurance. Most other insurance is a business decision on your part. However, contracts you may enter into, such as leases, loans, etc., may contain, insurance requirements you have to comply with, and of which you should be aware.

Q. Can any exposures be reduced or eliminated?

A. You can request an inspection by a Loss Control Engineer to uncover hazardous conditions. Recommendations from this report can benefit you by helping to reduce premiums and making your business more attractive to insurers.

Q. In Commercial Insurance, are there policies that provide or combine the various kinds of coverages like a Homewoners policy does with personal insurance?

A. Yes there are various "package" policies available. Programs such as the Business Owners Policy (BOP), Special Multi Peril (SMP) and insurance company designed packages are constantly being marketed. Many insurers design packages to meet specialized needs, such as Auto Garages, Auto Dealers, Jewelers, Furriers, Barbers and Beauty Salons, and Apartment Building. Competent Commercial Agents and Brokers are prepared to offer these programs.

Q. Can I obtain Earthquake insurance for a business?

A. The insurance companies are not required to offer earthquake insurance on commercial property. The availability is therefore determined by the market place and individual company underwriting decisions. Here again, the agent can do the searching for you.

Q. How much does business insurance cost?

A. Your cost will be unique to your exposure; it will be similar to risks insured by the same company, but since this is a competitive market, different companies will have different premiums. You should know the basis for the premiums. Property insurance premiums are based on a rate per \$100 coverage. Factors that go into making the rate are construction of building, occupancy and use, public protection, neighboring exposures and internal protection, such as sprinklers, etc..

The premium basis for liability insurance depends on the type of business. Stores and manufacturing are based on gross sales. Contracting and service businesses are based on payroll. Apartments are based on the number of units, hotels, on gross sales, and office space and property owned and leased to others is based on square footage area.

Anything based on sales or payroll is auditable and can result in additional or return premium. Companies have minimum and deposit premium requirements, which can and do vary, and should be considered when shopping.

Q. What are some of the specific exposures and how are they covered?

A. Following is a table of common exposures and appropriate coverages: Commercial Building Policy

<u>Types of Risk You Own(if any)</u>	<u>Types of Coverage(s)</u>
1. Building	Commercial Building Policy
2. Buildings leased or rented	Requirement of Lease or Rental Agreement
3. Your equipment, tools, furniture fixtures and sales stock at your location	Commercial Package (B.O.P.)
3a. Above goods at other locations	Commercial Package--You must determine your limit amount
3b. Above goods while in transit in vehicles you own	Commercial Package--You must determine your limit amount
3c. Above goods in transit while in transit in vehicles other than your own.	Commercial Package--You must determine your limit amount
4. In the event of a loss you will need to keep your business going, for this purpose you need Business Interruption Insurance and Extra Expense.	Loss of your income and any additional expenses associated with the loss, this amount should be adequate for any unforeseen loss.
5. Loss of money from your premises and in transit	

You May/ Will Need

**Optional
Coverages/Requirements**

Fire, Extended Coverages &
Vandalism

Special Form

Depends on Lease or rental
agreement

“All Risks” including Burglary

Earthquake/Reporting Form
Company may require central
station alarm system

Commercial Building Policy

Commercial Building Policy

Commercial Building Policy

For these coverages you will need
to have and maintain financial
records of previous months of
expenses, acquisition costs and
profits

You may not find this coverage from
all agents or companies. This would
depend on your type of risk. When
available limits may be very small

Companies usually require alarm
and surveillance systems

Type of Risks

Type of Coverage(s)

6. Liability Coverage

This will protect you from claims of negligence caused by you or your employees

7. Workers' Compensation

Required by California Law for all employees

8. Business Auto

Similar coverages as personal auto except rated as commercial. Coverage applies to all listed vehicles used in the business

9. Special Exposures

Most generally Inland Marine coverages

You May/Will Need

Optional Coverage/Requirements

Limits vary from company (higher limits may be required by lease or rental agreement)

Fire legal liability Lessors Risk Products, completed operations, sub-contractors warranty, garage legal liability.

This will be a separate policy. You must maintain adequate payroll records. Premiums based on payroll.

None

All driving information (DMV printouts on any potential driver.

Non-owned auto

To discuss with your agent/ broker most all business will require some form of specialty coverages.

Numerous

Q. How can I find out about insurance companies that are presented to me?

A. First, ask the agent for background on the company. Then call the Department of Insurance Hotline to find out status in California, how long in the state etc. You may then want to go to the library and obtain detailed financial information and ratings by reviewing rating service reports published by A.M. Best, Standard & Poors, Moodys or other rating services.

Q. After I agree to purchase insurance, complete applications and pay money, how do I know I have insurance?

A. You should be given a “binder” signed by the agent or company, showing you as the insured, effective date of coverage, the insurance company, location and description of property insured, amounts of coverage, limits of liability and other pertinent information. A binder may be valid for up to 90 days pending issuance of the policy.

Q. Can an insurance company cancel my insurance?

A. A company has 60 day underwriting period, during which they review the application and other information submitted, possibly have an inspection done, and verify the rating and premium calculation. The company may cancel your insurance within that 60 day period. they must give you at least 10 days notice of cancellation. After 60 days the reasons a policy may be cancelled are very limited. Two common reasons are non-payment of premium or discovery of fraud.

Q. When I receive my policy(s), how can I be sure they contain what I agreed to?

A. Ask your agent to deliver the policy(s) in person, review them with you and answer any questions you might have.

Q. How would I know if the insurance company is nonrenewing my insurance?

A. The insurance company must give you at least 60 days, but not more than 120 days notice of nonrenewal, and the reasons.

TALK to US

Do you have a question, comment or concern? There are several ways to talk to us:



1. **Call** our consumer Hotline at **(800) 927-HELP**

Callers within the Los Angeles area please dial **(213)- 897-8921**
Telecommunication Device for the Deaf dial **(800) 482-4TDD**



2. **Write:** **California Department of Insurance**
300 South Spring St., South Tower
Los Angeles, CA 90013



3. **E-mail** us through our website at
[www. 927help@insurance.ca.gov](mailto:www.927help@insurance.ca.gov)
4. **or visit us in person on the 9th Floor at the address above.**
Monday through Friday 8:00 AM to 5:00 PM P.S.T.
Excluding Holidays